

Analysis of the Effect of *Frugal Living* on Employee Financial Management in Achieving Financial Freedom

Rizki Hartantri, Bakti Setyadi, Muji Gunarto

Universitas Bina Darma Palembang

Corresponding Author: rizki.sp11@gmail.com

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Abstract

Employees are advised to apply the concept of frugal living or save at all costs to break the chain of debt that could endanger their financial condition. Employees may achieve financial freedom more quickly by practicing frugal living from an early age and managing finances well. Planning for financial freedom is very important because one day, people will lose their ability to work. This research collected data from 150 employee respondents who worked in private or civil agencies. The uniqueness of this research lies in the data processing method results showing that the t-test value for the frugal living variable has a value of 56,85, which is greater than the t-table of 1.66. The research results show that the Frugal Living lifestyle significantly affects employee financial management. In contrast, the relationship between financial management and financial freedom has no significant effect. Apart from that, the relationship between Frugal Living and financial freedom also does not have a significant effect. This research contributes to increasing insight for employees to implement the Frugal Living lifestyle in achieving financial freedom at an early age.

Keywords: *Frugal Living*, Financial Management, Financial Freedom

JEL Codes: M. 40, M41, M.42

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1. Introduction

The current increasing cost of living and stagnant income have prompted most people to devise special strategies to maintain survival. Starting from the COVID-19 pandemic in 2019, weather instability, to the conflicts in Russia-Ukraine and Israel-Palestine, all of these events have had an impact on increasing interest rates and increasing prices of basic goods. It is important to think of solutions to survive amidst soaring food and energy prices. In this modern era, there is the influence of incentives that have less positive value, such as following trends in purchasing

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or using goods that are not solely based on need, but are more often influenced by prestige, increasing prestige, and other reasons that are considered less essential (Anggraini and Fauzan Heru Santoso, 2017).

Recently, amidst increasingly difficult economic realities and efforts to avoid consumer behavior, a term that has long been known and has become a trend has emerged, namely frugal living. This term has become one of the approaches adopted by modern society to survive difficult economic situations and to overcome the tendency of consumerist behavior. Frugal living has become a term contrary to consumerism and is starting to be widely applied by lower middle-class people. This lifestyle emphasizes living with as few expenses as possible, mainly if total income is limited.

This lifestyle emphasizes living with as few expenses as possible, mainly if total income is limited. According to Dwi (2023), frugal living is a frugal lifestyle that focuses on saving money and reducing expenses. In principle, frugal living emphasizes policy in making spending decisions, prioritizing the value of the goods purchased, and maintaining financial balance to avoid being trapped in temporary consumer pleasures. A frugal lifestyle can be a short-term solution for someone who needs money to pay off debt, pay off loans, etc. However, if you make it a long-term habit, this lifestyle can help you achieve better life goals in the future.

Individuals who adopt a frugal living lifestyle not only focus on saving money but also practice accuracy in managing finances and making investments. Everyone must be wise and careful in managing their finances. According to Silaya (2020), a person can be said to be financially healthy if he uses planning to manage his finances, carries out proper analysis and sets clear financial goals. There are many reasons someone cannot achieve financial health, such as expenses that exceed income, consumer debt that cannot be managed, lack of savings and emergency funds, and lack of financial planning. The dire consequence is being in large amounts of debt.

Therefore, employees are advised to apply the concept of frugal living or save at all costs to break the chain of debt that could endanger their financial condition. By practicing frugal living from an early age and managing finances well, employees may achieve financial freedom more quickly. Planning for financial freedom is very important because one day, people will lose their ability to work.

2. Literature Review

2.1 Theory of Planned Behavior

In 1985, Ajzen introduced the TPB through an article entitled "*From Intentions to Actions: A Theory of Planned Behavior*." The basis of the TPB involves various attitude theories, including learning theory, expectancy-value theory, consistency theory, and attribution theory. *The Theory of Planned Behavior* (TPB) is a theoretical framework that explains the factors that influence the formation of intentions to behave. TPB states that behavioral intentions are influenced by three key factors, namely attitudes, subjective norms, and perceptions regarding behavioral control. This theory has been widely applied in various research fields involving environmental behavior and problems. Thus, the basic principle of TPB is to predict intentions, which will generally become actual behavior without serious obstacles. This theory has several purposes and uses, predicting and understanding the impact of motivation on behavior that is not

completely controlled or regulated by the individual. In addition, this theory is used to identify behavior change strategies and explain crucial aspects of human behavior, including the factors that encourage someone to buy a new car or be absent from work. The TPB provides a framework for understanding attitudes towards a behavior, saying that the intention to behave is the main determinant of a person's behavior.

2.2 Frugal Living

According to Kotler and Keller (2008), Lifestyle is the unique way in which a person lives their life which is reflected in their activities, interests and views of the world. The concept of lifestyle covers the overall aspect of an individual and how they interact with the surrounding environment, reflecting the individual's general pattern of living their daily life. Lifestyle includes an individual's actions as reflected in their daily activities, personal interests, and views, particularly with regard to the way their self-image reflects their social status.

Referring to research from (Dwi, 2023), Frugal living is a frugal lifestyle that focuses on saving and minimizing expenses. If someone wants to live frugally, they need to think about their ultimate goal and how they can take charge of their finances to achieve that goal. Meanwhile, according to (Sibuea, 2022), the concept of frugal living is not something superficial. Frugal living is defined as a concept where a person allocates his financial resources consciously with good assessment and analysis as well as a strategy to achieve clear financial goals for the future.

According to Sibuea (2022), there are several practical steps to implement a Frugal Living lifestyle, including:

1. Have clear and reasonable financial goals
2. Always analyze your needs and wants before spending money
3. Avoid consumer debt
4. Feel comfortable not being influenced by trends
5. There is an understanding and awareness that life is not just a moment

2.3 Financial Management

According to Lestari (2020), individual financial management can be understood as the study of the use of important resources carried out by individuals and families to achieve financial success, including various activities related to managing income, costs, savings, protection and investment. Individual financial management is an important issue because it can direct producers to spend money wisely to achieve economic benefits, for example by encouraging them to produce goods and services that meet their needs (Kholilah and Iramani, 2018). A person is able to manage personal finances well if they know how to budget, saving, managing finances, and investing. According to Afandy (2020), there are five aspects of good financial management, namely as follows:

1. Planning Finances
2. Pay bills on time.
3. Contemplation of the Future
4. Save

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5. Financially independent

2.4 Financial Freedom

According to Aulia Akbar, a financial planner and financial educator at the Kompasianival life hack (2021), financial freedom is a condition where a person does not depend on other people and is not forced to work too much to meet life's needs, including financial needs. This means that someone who has achieved financial freedom can be said to have more than enough assets. To achieve financial independence, we all need a good financial plan. Gaining financial independence is a systematic approach to making more money in less time so you can spend more of your valuable free time doing the things you love. Planning for financial freedom is very important because one day people will lose their ability to work. The following steps can be taken to achieve financial freedom, namely as follows:

1. Make a financial plan
2. Free from consumer debt
3. Have an emergency fund
4. Have investments
5. Have productive assets
6. Set up passive income
7. Development of personal potential

3. Research Method

3.1 Population and Prosedure

The population in this study includes all employees who work in the four research objects, namely the Palcomtech Institute, Maxone Hotel, Palembang City PUPR Service, and Palembang City Environmental Service with a total of 154 people. In determining the sample for this research, the researcher chose the Probability Sampling technique, especially simple random sampling, where each member of the population has the same chance of being selected as a member of the sample. This research used a sample of 150 people, in line with the total population of the four research objects.

3.2 Measure

The data collection technique in this research uses a questionnaire as the main source of information. The research questionnaire will be prepared in the form of a Google form and distributed via various social media platforms, including WhatsApp and Telegram. The questionnaire contains 24 questions and uses a Likert scale with a range of 1-5 (Strongly Disagree-Strongly Agree).

3.2 Analysis Technique

After data collection, the research involved several analysis steps. First, the Data Quality Test is carried out through the Validity Test, Reliability Test, and Classical Assumption Test. After that, the classical assumption test was carried out with the Multicollinearity Test, Normality Test, and Heteroskedasticity Test applied to ensure the validity of the estimation model as an

estimating instrument. The t-test shows how big the influence of each independent variable, intervening variable, and dependent variable is. The following estimation equation is used in this research:

- **1st Equation** : $Y = \beta_0 + \beta_1 X_1$
 - **2nd Equation** : $Z = Y$
- $$Z = \beta_0 + \beta_1 X_1 + \beta_2 Y$$

Information :

Y = Financial management

$B_0 \beta_1 \beta_2$ = Regression model parameters

X_1 = Frugal Living

Z = Financial Freedom

4. Findings and Discussions

4.1 Findings

By collecting data through a structured questionnaire distributed via Google Form and distributed via WhatsApp and Telegram, a sample or respondent of 150 people was obtained who filled out the questionnaire with detailed data as follows:

Table 1. Respondent Profile

No.	Dimention	Category	Number of Respondents (Person)	Percentage (%)
1.	Age	a. 20-30 years	54	36
		b. 31-40 years	55	36,7
		c. 41-50 years	41	27,3
2.	Gender	a. Man	53	35,3
		b. Woman	97	64,7
3.	Company	a. Palcomtech	41	27
		b. Maxone Hotel	36	24
		c. LHK Department	36	24
		d. PUPR Department	30	20
		e. Others	7	5
4.	Position	a. Staff	104	69
		b. Coordinator	21	14
		c. Manager/ Chief	25	17

5.	Length of Work	a. < 1 year	17	11,3
		b. > 1-5 years	43	28,7
		c. > 5-10 years	33	22
		d. > 10 years	57	38
6.	Amount of Expenses Each Month	a. < Rp 1 Million	7	4,7
		b. Rp 1-5 Million	90	60
		c. Rp 5-10 Million	39	26
		d. Rp 10-15 Million	14	9,3
7.	Lifestyle Application	a. Expenditures are not greater than income	40	26,7
		b. Save in a disciplined manner	32	21,3
		c. Minimalist lifestyle	18	12
		d. Be wise in shopping	60	40

Source : Data is proceed, 2024

4.1 Test Data Quality

Table 2. Result Test Data Quality

Variable	Validity Test	Reliability Test	Normality Test	Multicollinearity Test	Heteroscedasticity Test
Frugal Living Financial Management Financial Freedom	VALID (Rcount value > from Rtable 0.1603)	RELIABLE (Ralpha Value > Rcritical 0.600) Ralpha : - FG: 0.962 - PK: 0.929 - KF: 0.930	NORMAL (Asymp.Sig significance value > 0.05) Asymp: 0.200	MULTICOLINEARITY NOT OCCUR (TOL value > 0.1 and VIF value < 10) TOLL: 0.142 VIF: 7,054	HETEROSCEDASTICITY DOES NOT OCCUR Significance value ≥ 0.05 - FG: 0.505 - PK: 0.443

Source : Data is proceed

Based on the table above, the data quality test results in this study show that the data is valid, reliable, and normal. There is no multicollinearity or heteroscedasticity because the value of each variable is above the normal threshold value.

4.2 T-Value Test of Coefficients or Parameters

The t-test is used to evaluate the significance of the influence of the independent variable on the dependent variable. In this research, the test was carried out using regression analysis for the variable frugal living on financial management, then financial management on financial freedom, and frugal living on financial freedom. The results of the t-test between variables)can

be shown in the image below :

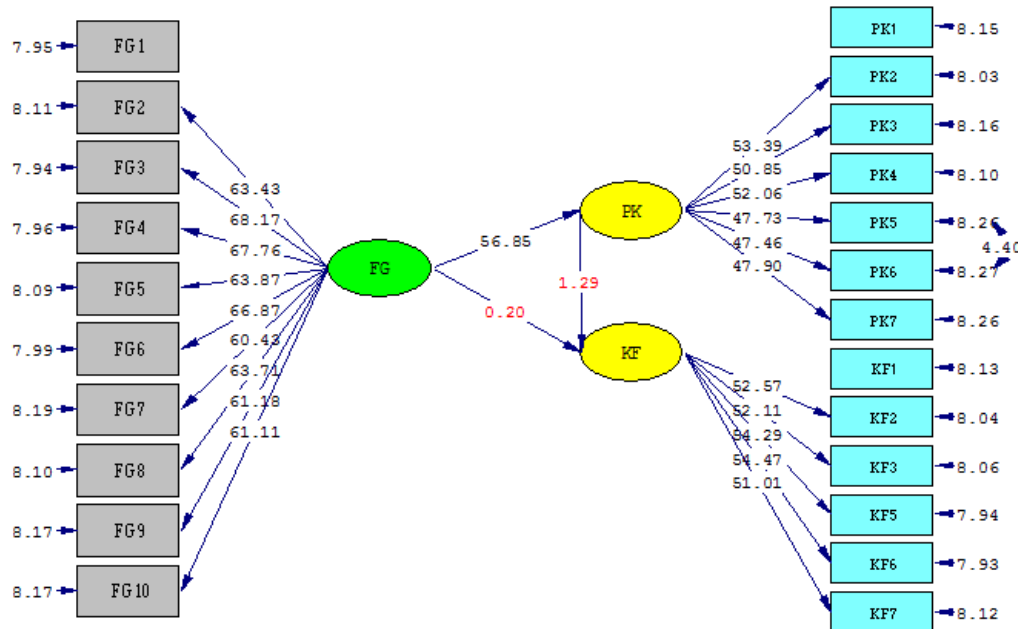


Figure 1. T-Value Structural Model

Source: Data is Proceed

The figure above explains that the influence of Frugal Living on Financial Management in Achieving Financial Freedom can be seen from the t-value output coefficient or parameter. A significant relationship will be indicated by the t-value displayed in black on the path diagram with a value ≥ 1.66 . Meanwhile, an insignificant relationship will be indicated by a t-value displayed in red on the path diagram with a value below 1.66. Based on the t-value of the financial management variable (PK) on financial freedom (KF) of 1.29 and the t-value of the Frugal Living (FG) variable on financial freedom (KF) of 0.20, it can be interpreted that financial management (PK) does not have a significant effect on financial freedom (KF) and Frugal Living (FG) also does not have a significant effect on financial freedom (KF).

Based on the structural t-value image above, the t-value is used to assess the significance of the influence between variables. This information is reflected in the results of data analysis which is presented in the form of structural equations. Structural equation 1 can be described as follows:

$$Y = \beta_0 + \beta_1 X_1$$

$$Y = 0.38 + 0.90 X_1$$

Structural equation 1 shows the partial influence of frugal living on financial management. There is β_0 which is a regression coefficient of 0.38 indicating the direction of a positive relationship between the frugal living variable and partial financial management. When variable X_1 increases, the value of variable Y also increases. This means that if frugal living increases then financial management will also improve. Meanwhile, the $\beta_1 X_1$ value of 0.90 indicates that the frugal living regression coefficient has a 90% influence on financial management and the

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remaining 10% is influenced by other variables not mentioned in this research.

Furthermore, the results of the second structural equation indicate that Financial Management acts as a mediator in the relationship between Frugal Living and Financial Freedom as stated in the results of the regression equation as follows:

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 Y$$

$$Z = -0.11 + 0.12FG + 0.89PK$$

The regression equation has a negative value at a constant of -0.11, which states that if Frugal Living has a value of 0, then financial freedom will have a negative value. This model means that for every 1 unit increase in the score for implementing frugal living or X_1 it is 0.12 with the assumption that the financial management variables are in a constant condition. Every time there is an increase of 1 unit in the score for financial management or Y of 0.89, it will be followed by an increase in financial freedom of -0.11 with the assumption that the frugal living variable is in a constant condition.

After evaluating the overall fit of the model. This test aims to understand the relationship between frugal living and financial management and determine whether financial management acts as a mediator in the relationship between frugal living and financial freedom. The following are the results of the evaluation of the structural model coefficients and their relationship to the Research Hypothesis:

Table 3. Evaluation of Structural Model Coefficients and Their Relationship to Research Hypotheses

Hypothesis	Path	T-Table	T-Value	Result
Hypothesis 1	<i>Frugal Living</i> – Financial Management	1,66	56,85	Accepted
Hypothesis 2	Financial Management – Financial Freedom	0,89	1,29	Rejected
Hypothesis 3	<i>Frugal Living</i> – Financial Freedom	0,12	0,20	Rejected

Source: Data is proceed

Based on the table above, it is produced that:

- The first hypothesis was proven to be accepted because the t-value reached 56.85, and the estimated coefficient was 0.90 at the 95% confidence level. The significance of this result can be seen from the t-value, which exceeds the threshold of 1.66. The high estimated value indicates the positive influence of frugal living on financial management.
- The second hypothesis must be rejected because the estimated coefficient and t-value do not show sufficient significance. The T-value is 1.29, and the estimated coefficient is 0.89, with a confidence level of 95%. Model testing shows that the t-value, with red indicating a value

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below 1.66, indicates an insignificant relationship between financial management and financial freedom.

- Third hypothesis because the estimated coefficient and t-value are not significant. The T-value is 0.20 and the estimated coefficient is 0.12 at the 95% confidence level. The red color on the t-value indicates a value below 1.66, indicating the insignificance of the relationship between frugal living and financial freedom.

4.2 Discussions

4.2.1 The Influence of Frugal Living on Financial Management

Based on the research results, it appears that there is a direct relationship between Frugal Living and Financial Management. This emphasizes that a person's level of lifestyle directly influences their ability to manage finances, and good financial management can reduce the risk of financial difficulties. This is in accordance with previous research findings from (Franita, 2023) which states that the strategy that must be used in making financial planning is to implement frugal living and research (Muhammad, 2022) which states that frugal living has a positive and significant effect on desires. early retirement. Based on this description, it can be concluded that frugal living has a significant effect on employee financial management.

4.2.2 The Influence of Financial Management on Financial Freedom

Discussion of Financial Management towards Financial Freedom Research on financial management variables on financial freedom shows a direct relationship. However, findings from research show that the relationship between financial management and financial freedom is not significant. If related to behavioral theory, the lack of influence of financial management on financial freedom is a lack of understanding of personal financial situations, financial goals and how to achieve them. If someone lacks financial awareness, they may not understand the importance of financial management in achieving financial freedom. Behavioral finance theory highlights the importance of setting appropriate priorities in financial management. If someone does not prioritize financial management to achieve financial freedom, they may be more likely to spend money impulsively or not pay attention to long-term financial planning.

The results of this research also support the results of research from (Kholilah and Iramani, 2018) which states that a person is able to manage personal finances well if they know how to budget, save, manage finances and invest. This is also in accordance with the findings of previous research (Illahi et al. 2021) which explains that the millennial generation has the potential to achieve financial freedom from an early age, but needs to change their financial practices in order to control their finances more effectively. The main key in achieving this goal is consistency, where success in achieving financial freedom depends on the ability to remain consistent with the financial practices that have been developed. Based on this explanation, it can be concluded that a lack of consistency in financial management can cause its influence to be insignificant in achieving financial freedom.

4.2.3 The Influence of Frugal Living on Financial Freedom

Frugal living research on financial freedom shows an indirect relationship. This is because there is a financial management variable that mediates the frugal living variable and the financial freedom variable. If linked to behavioral theory, the lack of influence of frugal living on financial freedom is that behavioral financial theory highlights the importance of individual

perceptions of spending. If someone doesn't view frugal living as an effective way to achieve financial freedom, they probably won't implement it in their daily life. This perception can be influenced by culture, environment and personal experience. Furthermore, the lack of influence of frugal living on financial freedom can also be influenced by a person's personal priorities and values. If someone is more concerned with consuming goods and services to fulfill current desires than saving for the future, they will probably not adopt frugal living as part of their financial habits.

Thus, while frugal living can be a powerful element in the journey to financial freedom, it is important to include other elements such as wise investments, debt management, and creating passive sources of income. Apart from that, the personal financial context and life goals also play an important role in determining the extent to which frugal living will affect a person's financial freedom. This is in line with research (Melania, Ratnawati, and Karsudjono, 2020) which explains that individuals' understanding of the choices available in their lives can be reflected in financial behavior, which is basically the implementation of these choices. The choices made by individuals will be reflected in the lifestyle they adopt.

5. Conclusion

This research concludes that frugal living has a significant impact on financial management. However, financial management does not mediate between a frugal lifestyle and financial freedom. Furthermore, frugal living does not have a positive and significant impact on financial freedom. In other words, changes in the value of frugal living do not significantly contribute to changes in financial freedom, so an increase in frugal living does not necessarily mean an increase in financial freedom. It is recommended to continue further research, considering the limitations of research on frugal living. This is because although frugal living can be a powerful element in the journey to financial freedom, it is important to involve other elements such as wise investments, debt management, consistency and creating passive sources of income. Apart from that, the personal financial context and life goals also play an important role in determining the extent to which frugal living will affect a person's financial freedom.

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